

North Star Steel Company

ADMINISTRATIVE OFFICES

CENTENNIAL LAKES OFFICE PARK
7650 EDINBOROUGH WAY, SUITE 600
EDINA, MN 55435



TEL: 612/367-3000
FAX: 612/367-3082

Jan. 4, 2002

Gloria Blue
Executive Secretary
TPSC
Office of the U.S. Trade Representative
600 17th Street, N.W.
Washington, DC 20508

RE: Public Comments to the TPSC on Potential Action Under Section 203
of the Trade Act of 1974 with Regard to Imports of Certain Steel

Dear Ms. Blue:

In accordance with the notice published in the Federal Register on Oct. 26, 2001, attached are comments by North Star Steel on action the President should take under section 203(a) of the Trade Act of 1974 in response to the affirmative findings by the International Trade Commission that the domestic steel industry has suffered injury as a consequence of imports from certain countries.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Thompson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jim Thompson
President

Comments of North Star Steel on the Need for a Comprehensive Remedy Program for the U.S. Steel Industry

Executive Summary

Any remedy for the problems facing the U.S. steel industry must be comprehensive, addressing both domestic and foreign causes of global excess steelmaking capacity and the low prices of steel in the United States. The solution must be long term in nature. The remedy should not single out any group for special treatment, whether by providing relief from accumulated “legacy costs” or by granting lower tariff treatment for a particular product category that favors one segment over another. Appeasing demands of a few in the U.S. industry for short term bailouts or price hikes will only ensure that U.S. steelmakers will be back asking for further relief as soon as today’s remedy expires.

The Administration should grant economic relief from imports under the comprehensive 201 case that will be significant enough to allow U.S. steelmakers to restructure and close uncompetitive capacity permanently. The Administration also should not ignore the 6-0 finding by the International Trade Commission that imports from Canada have been causing injury. Any remedy must do more than just ensure survival but create a climate in which competitive U.S. steelmakers will prosper in the future based on market-driven decisionmaking and returns.

The United States should continue to press for reductions in global steelmaking capacity. The cuts tentatively agreed to Dec. 18th in Paris represent a good start, but are well short of the reduction target sought by U.S. negotiators. The Administration should also continue to press other nations to eliminate export subsidies as well as trade-distorting domestic subsidy practices for steel producers. At the same time, the United States must abandon targeted assistance programs, such as the Emergency Steel Loan Guarantee Act of 1999, which help prop up uncompetitive capacity.

Permanent restructuring and bulldozing of inefficient domestic capacity must be an integral part of any long term relief plan for the U.S. steel industry. Merely dissolving corporate structures while selling off uncompetitive assets will only ensure that those assets resurface and continue to impose a drag on U.S. competitiveness. The United States should provide an adequate safety net to workers and communities affected by plant closings to help them through the transition period that these closings will necessitate. The government may also need to provide financial and regulatory relief to companies to assist them with the costs associated with permanent closing of capacity.

The question of treatment of legacy costs fundamentally divides the U.S. steel industry. The Administration must distinguish between the economic issues that face the steel industry and the social issues that face displaced workers and their communities. Any relief for pension or health insurance should benefit workers and not companies that have made poor management decisions in the past. Relief, if provided, should only come in exchange for permanent bulldozing and physical elimination of capacity and should not favor one segment of the industry over another.

Ultimately, the remedy for the U.S. steel industry must recognize both the international and the domestic causes of the problems that face the industry today. Excess capacity and subsidy practices have forced global steel prices so low that even the most efficient U.S. minimill operations are unable to make a reasonable return on their equity. However, the remedy must also take into account the biggest change characterizing the U.S. steel industry, as new technologies have overtaken and supplanted traditional integrated mill production.

Introduction

North Star Steel is a member of the Cargill Steel group and a wholly owned subsidiary of Cargill, Incorporated. North Star Steel is the second largest minimill business in the United States and produces some five million tons of steel products per year. North Star has melt shops in six locations: St. Paul, MN; Wilton, IA; Delta and Youngstown, OH; Beaumont, TX; Monroe, MI; and Kingman, AZ. In addition, North Star is in a joint venture with BHP of Australia, North Star/BHP, which operates a 1.5 million ton-per-year minimill near Delta, OH, which produces flat-rolled steel. The company also runs a steel rolling mill in Calvert City, Ky.; a tubular goods end-finishing facility in Houston, Texas; and a grinding-ball plant in Duluth, Minn. North Star's minimills produce merchant bars, rebar, light structural shapes, engineered bars, and hot rolled coils. North Star also produces wire rod and seamless tubular products. North Star makes the vast majority of its own semi-finished billets and medium sized slabs.

Cargill Steel is one of the few truly diversified steel businesses in the world. Cargill Steel produces, processes, and trades twenty-three different product lines globally. The company's variety of products and services sets it apart from all other steel companies based in the United States. Besides North Star, Cargill Ferrous International operates out of twelve locations on four continents trading ferrous products globally. Cargill Steel and Wire's service centers process flat rolled coil for a variety of market segments. The wire fabricating plants provide a growing line of products for construction, agricultural and manufacturing customers, including building and structural mesh for the construction industry; chainlink security fencing; baler wire for the agricultural market; and industrial steel wire used in the manufacturing of products made from wire.

In all, Cargill Steel produces, trades and processes some 8.5 million tons of steel per year. These different businesses give North Star Steel a unique perspective on the state of the U.S. and the global steel industry.

The U.S. steel industry is facing a number of serious challenges. It is imperative that these problems be fixed, but that they be fixed right. Any effort to address these serious challenges, both domestic and foreign, that is less than comprehensive only ensures that U.S. steelmakers will be back asking for relief again, as soon as or shortly after granted relief has ended. The challenge is to accept that tough medicine is needed to set the domestic industry back on its feet, but that it will lead to needed changes to ensure that the industry emerges as a sustainable competitor in the global marketplace.

Above all, it is important to recognize that the problems facing the U.S. industry are multi-faceted – imports alone are not responsible for all the problems. As the United States' economic picture has turned down over this past year, demand for steel has slacked off, putting further pressure on inefficient and uncompetitive U.S. mills, many of which are already in bankruptcy, as well as on more competitive operations. Any solutions that are developed must address both foreign and domestic issues that face the industry.

Section 201 Relief

In initiating this Section 201 action, the Administration has created an opportunity for meaningful, long term relief for the beleaguered U.S. steel industry. Properly constructed relief will mean that the U.S. industry can take steps it needs to address the fundamental economic issues that it faces and to adapt itself for long term survival and profitability. However, this relief will not come without some pain, as the U.S. industry is in need of fundamental restructuring and reform. And, the United States cannot insist that other countries eliminate trade-distorting practices in the steel industry without first addressing and eliminating such practices at home.

Relief should not be designed to preserve the least competitive elements of the U.S. industry. On the contrary, uncompetitive domestic capacity should be encouraged to close permanently. The U.S. market depends on imports to supply a certain share of its demand. However, this does not mean that the imports are taking market share that otherwise would go to U.S. producers, as inefficient domestic producers would still be under stress from both competitive domestic producers as well as efficiently produced imports in a world with a level playing field. Ultimately, markets should be the key determinant in economic decisionmaking in the steel industry.

The concentration on imports as the cause of the industry's problems in the current comprehensive 201 trade case ignores the fundamental changes that have occurred in the makeup of the domestic industry. Imported steel surged during the two-year period of 1998-99, and has remained at historically high levels as a percent of consumption. However, another major change characterizing the U.S. industry has been the evolutionary shift in production from large integrated mills to smaller, more efficient minimill/electric arc furnace operations, which now produce over 45 percent of the steel consumed in the United States.

Any import relief proposal should include the following key elements:

- ❖ First and foremost, any remedy that is implemented in this 201 steel trade case must be significant enough to provide the U.S. industry with an adequate cushion to conduct a much-needed restructuring over the next four years – the maximum period of time allowable under the Uruguay Round. North Star Steel supported the minimill industry's position calling for the maximum tariff allowed by law. The International Trade Commission's recommendation of a 20 percent tariff level on imports subject to this proceeding takes a step in that direction. North Star remains convinced that tough measures are necessary to correct the systemic problems that have afflicted the U.S. and the global steel industries. However, the

appropriate level of relief may take into account the cumulative impact of the actions taken to help the industry, including international as well as domestic reforms.

- ❖ Any remedy must be substantial enough to withstand currency fluctuations and to prevent import surges such as occurred during 1998-99. Any tariff or tariff rate quota regime must be set high enough so that the most efficient U.S. steel producers can, at a minimum, earn their cost of capital over the normal business cycle.
- ❖ Duties may vary from product to product to achieve maximum effectiveness. Duties must also be set to discourage product shifting to evade any remedy imposed.
- ❖ In order to ensure that both major groups of producers are treated fairly in fashioning a remedy under this 201 case, imports of slab should be included. An exception for imported slab from Mexico, in particular, could undermine the effectiveness of any remedy by giving one industry segment an input advantage over the other. Minimill operations are not able to consume slab products from outside sources in their plants due to the highly efficient, linear nature of their production.
- ❖ In particular, the Administration should learn from the negative experience in the recent wire rod 201 trade case. A remedy should not be designed to try to please everyone. In the wire rod case, the tariff rate quota was set at too low a tariff and for too much product. As a consequence, low-priced foreign wire rod rushed to fill the quotas, effectively lowering the U.S. price of wire rod, rather than provide domestic producers the relief that was originally sought. As a result of the failure of the 201 action to provide relief, the U.S. wire rod industry was forced subsequently to file for dumping relief as well.
- ❖ The U.S. Government should establish measurement criteria to determine if relief provided is indeed successful. One indicator of success will certainly be whether the industry is back asking for additional relief when the period for relief under this 201 proceeding expires. In the nearer term, however, a clear sign of whether the relief is working will be the willingness of the capital markets to return to the industry.
- ❖ Lastly, any attempt to excuse imports from Canada or Mexico from relief must be approached very carefully. The Administration must not ignore the 6-0 vote by the International Trade Commission that found imports of hot rolled carbon and alloy bars and light shapes from Canada to be a substantial cause of serious injury to U.S. producers. Excluding Canada from any remedial tariffs on these imports may be inconsistent with World Trade Organization obligations and will certainly undermine any relief granted in this product category. Canada now ships over 50 percent of long products that are imported by the United States. Canadian producers have proven in the past that they will exploit the U.S. market in circumstances similar to the current case. When Canadian producers were

excluded from a trade remedy case involving imported hot rolled rod, for example, Canadian imports surged into the United States, growing 28.7 percent in just over three years, while dropping their price and undercutting any potential relief to the detriment of U.S. producers.

A Global Solution

Steel producing member nations of the Organization for Economic Cooperation agreed on Dec. 18th to cut some 97.5 million tons of production capacity by 2010. There are conflicting reports as to just how these cuts will be reached, whether they include reductions that have already occurred, and whether the promised reductions are linked in any way to any compromise by the U.S. Government in developing a meaningful remedy in this comprehensive 201 case. The agreed reductions in capacity are less than half of what U.S. government negotiators sought. The United States should continue to press for reductions in global steelmaking capacity and to ensure that any cuts represent real reductions in existing capacity.

The relief provided by this 201 case should provide an opportune window for multilateral steel negotiations to proceed. The Administration should reject any attempts to link global capacity reduction to any compromise in this 201 proceeding. Reduction in excess and inefficient global steelmaking capacity is in the interest of all producers of steel.

Similarly, the Administration should continue its efforts to engage other steel producing countries in comprehensive negotiations on eliminating, in the longer run, subsidy practices. The focus of international steel trade talks should be on the elimination of export subsidies, trade distorting domestic programs, and import barriers. It is more politically practical to try to mandate the elimination of such subsidy and other trade-distorting practices than to try to mandate the elimination of inefficient capacity in other countries, unless sufficient incentives are offered to ease the transition for workers, communities and companies affected by closings. Rather, ensuring that the market will work free from government interference will guarantee prospects for the greatest, and longest lasting, success.

There are a number of different issues that will need to be addressed as these talks progress. However, any effort to conduct such talks must avoid the pitfalls that beset the ill-fated Multilateral Steel Agreement negotiations in the past decade.

Domestic Action

The transformation of the U.S. steel industry has meant that newer, more efficient producers -- largely minimill operations -- have supplanted traditional integrated producers. Inefficient U.S. producers have suffered increasing bankruptcies, but capacity ends up being only temporarily closed or mothballed. Permanent restructuring to address the changes and challenges ahead has yet to begin.

- ❖ The fundamental trade-off for 201 relief, and for the long term relief promised by international negotiations, should be permanent elimination of inefficient domestic capacity. If 201 relief is to provide an opportunity for restructuring,

then restructuring must include bulldozing of such inefficient capacity in order to be truly meaningful.

- ❖ Although several integrated mills reportedly have declared that capacity reduction will occur as the companies merge and close older facilities, capacity reduction must be kept as an essential quid pro quo in the 201 process. To key domestic capacity reduction on international negotiations in the OECD suggests that the U.S. industry is not serious about helping itself.
- ❖ In the near term, the U.S. industry must be willing to give up targeted assistance programs that it receives from the U.S. government. Some of this assistance, in particular, is designed specifically to interfere with market forces in order to help weak, uncompetitive companies stay in business. For example, the Emergency Steel Loan Guarantee Act of 1999 provides up to \$1 billion in assistance to the industry. Subsidizing inefficient capacity will only exacerbate the problem of excess uncompetitive capacity in the United States. It further delays the time when U.S. steel production will return to truly competitive status and sets up the U.S. steel industry for ongoing challenges in the World Trade Organization as U.S. negotiators continue to seek an international solution to the problem of global overcapacity in steelmaking.
- ❖ At the same time, workers and communities affected by plant closings should be provided with an adequate program to help them during this transition period. Retraining assistance or wage supplements to help former steelworkers adapt to lower paying jobs are two approaches that have been proposed.
- ❖ The government should also help companies that are permanently closing capacity by providing financial and technical assistance to address needed environmental remediation for the closed facilities. There may need to be changes in U.S. tax law and other areas, including regulatory changes, to facilitate this transition as well.

Legacy Costs

A discussion of the long term outlook for the U.S. industry is not possible without addressing the social question of legacy costs, as this issue fundamentally divides the industry. The 201 process is designed to address import relief and not unrelated social or contractual problems into which companies may have entered. The question of legacy costs is a separate set of social concerns that should not play a role in any final remedy in the comprehensive 201 steel trade case.

Any effort to relieve companies of their accumulated legacy costs must be carefully structured in order to ensure economic fairness in the industry. As a general principle, it would be fundamentally unfair for some U.S. companies to shift the burden of their obligations, for which they freely contracted, onto other producers and U.S. consumers of steel products. Similarly, any payout of relief from the general Treasury or from other federal sources must be equitably distributed among the industry.

The collection of duties under Section 201 or other trade remedy laws was never intended to be a wealth transfer program. Congress and the Administration should reject any proposal to transfer duties collected under relief provided in the 201 proceeding to pay for legacy costs. If Congress does adopt such a program, then collected duties should only be distributed to companies that make the product on which the duties were paid under the final 201 ruling. In other words, a company that does not produce hot-rolled bar, for example, should not be eligible to receive any duties collected under a final tariff or tariff rate quota remedy on hot-rolled bar imports. Similarly, Congress should continue to reject proposals to impose a tax on all steel products to fund a special program to relieve certain companies of their legacy burdens, as this approach would have especially far-reaching consequences for industries other than steel.

At the same time, some in the industry are complaining that a WTO ruling in the *UK Bar* case should be reversed so that state forgiveness of accumulated debts will constitute an actionable subsidy against a newly privatized firm. Forgiveness or other subsidization of accumulated legacy costs would be irreconcilable with this position.

It is, as a general rule, entirely proper for the U.S. government to assist U.S. producers, workers and communities with the costs of any transition brought about by the required industry restructuring. However, such assistance should not favor any one industry nor any one segment of an industry. Assistance should not be given at the expense of other, competitive firms in the United States. This assistance also should benefit workers and their communities and not their former employers. Rather, legacy cost assistance should only be available to workers in a firm that is willing to tear down its capacity in exchange for the help.

Future of the Industry

There is little doubt that the U.S. steel industry will look very different in five years. The changes that are occurring today, however wrenching, are necessary as part of the natural evolution in steelmaking in this country. While steel demand will rise and fall somewhat with economic cycles, overall domestic consumption is not expected to grow significantly over the long term.

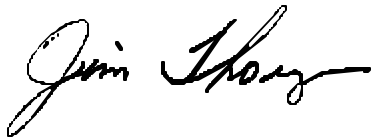
Rather, the changes ahead will be in the makeup of the U.S. industry. First, new technologies are continuing to come on line. In the near term, capital shortfalls caused by financial market skepticism about the industry have temporarily slowed this evolution, but over the longer term pressure on older, inefficient mills will continue to increase. Second, it is likely that there will be increasing business ties with foreign producers. This trend has already begun, and will likely accelerate, as domestic firms look for creative ways to raise capital for needed improvements.

Similarly, global steel production must change to accommodate the introduction of new technology and more efficient production systems. But the biggest change that will be necessary in the global marketplace is the elimination of government interference. It is time that governments remove themselves from the business of producing steel under the guise of national defense or for other purposes. The primary product of subsidization is

excess capacity, which in turn leads to calls for trade protection as firms cannot operate at profitable levels.

In order to prepare for this future, the U.S. government should not now be providing protection and production incentives or bailouts to inefficient capacity in this country. This type of assistance inevitably comes at the expense of efficient producers. Instead, any remedies that are developed in the context of this 201 case must be forward looking and provide assistance to inefficient capacity only to the extent it is necessary to assist with the transition caused by the permanent closing of that capacity. More bandaids will only ensure that the U.S. steel industry will be back in front of the government once again in a few years.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Thompson". The signature is fluid and cursive, with the first name "Jim" and last name "Thompson" clearly distinguishable.

Jim Thompson
President
North Star Steel

Centennial Lakes Office Park
7650 Edinborough Way, Suite 600
Edina, Minnesota 55435